

LABOR NEGOTIATION INTRODUCTORY MATERIALS

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# Daughters of Charity Health System

## Introduction to Blue Wolf Capital

Blue Wolf Capital is a private-equity firm with approximately \$500 million under management that invests in companies within its area of expertise, which includes the healthcare services sector

- Specializes in situations involving government, multiple stakeholders, labor unions, and financial, operational, or governance distress
- Deep relationships with turnaround professionals and other specialists that assist in implementing complex transactions
- Extensive experience in investments in which government plays a key role in the value chain
  - Familiarity with negotiations and cooperation with governmental and regulatory bodies within a transactional and operational framework
- Extensive relationships with unions across industrial sectors as well as the ability to creatively address their needs in potential transactions

## Leadership Background: Richard Becker, MD

- **Current President and CEO of The Brooklyn Hospital Center**
- **Physician executive: Board certified in Anesthesia and Critical Care Medicine**
  - More than 20 years of medical leadership experience
- **Strong turnaround experience in complex and competitive environments**
  - George Washington University Hospital, Washington, DC
    - *Positions: CEO, Chief Medical Officer*
  - Brooklyn Hospital, Brooklyn, NY
    - *Positions: CEO*
- **Excellent physician and staff relationships**
- **Education:**
  - George Washington University School of Business, MBA
  - George Washington University School of Medicine and Health Sciences, Board Certified in Anesthesiology
  - George Washington University School of Medicine and Health Sciences, Board Certified in Critical Care Medicine
  - University of Virginia School of Medicine, MD
  - University of Virginia, B.A. Chemistry

## Leadership Background: Adam Blumenthal

- **Co-founder and Managing Partner of Blue Wolf Capital**
- **Trustee and Investment Chair, United Auto Workers Retiree Medical Benefits Trust**
- **Serves on board of directors of Blue Wolf's portfolio companies**
  - Channel Technologies Group, Finch Paper Holdings, Gloucester Engineering Co., Pharmaceutical Strategies Group, Suwannee Lumber Co., Twin Rivers Paper Company
- **Over two decades of experience in the financial industry**
  - New York City Comptroller, New York City, 2002-2005
    - *Positions: First Deputy Comptroller, Chief Financial Officer*
  - American Capital, New York City, 1989-2002
    - *Positions: Board Member, Founding Member of Investment Committee, Chief Financial Officer, Chief Operating Officer, President, Vice Chairman*
- **Education:**
  - Yale School of Management, MBA
  - Harvard College, B.A.

## Executive Summary

(\$ in millions)

The Daughters of Charity Health System (DCHS) faces:

(1) Enormous financial and operational challenges, and (2) is rapidly running out of money

### SUMMARY OF SYSTEM WIDE RECENT RESULTS

	Annual Run Rate
<b>Operating Results <sup>(a)</sup></b>	<b>(\$65)</b>
Go Forward Interest Expense	(15)
Go Forward Needed Capital Spending <sup>(b)</sup>	(60)
Past Service Pension Contributions	(30)
<b>Cash Available for Debt Paydown</b>	<b>(\$170)</b>

■ DCHS has raised new financing (~\$110 million facility) in response to unfavorable operating results and the delay in receipt of Federal/State payments

■ Although this financing helps the System with liquidity prospects, the terms and maturity are typical of financing extended to other companies contemplating bankruptcy

Source: Unaudited DOHS financial reports.

(a) Operating results represented as EBIDAPO. Includes \$67.5 million of net QAF Provider Fee payments. 2013 annual pension interest and OPEB expense used as a proxy for LTM addback to EBIDA.

(b) LTM 3/31/2014 Cap Ex of \$43.6 million with additional catch-up payments based upon CIM schedules.

## Blue Wolf Proposal for DCHS

Based on its review to date, despite these challenges, Blue Wolf Capital Partners LLC (Blue Wolf) is prepared to submit a bid for DCHS that:

- Maintains and continues to operate all of DCHS's acute care facilities
- Preserves the important role as a provider of high-quality healthcare to underserved families that DCHS serves in the communities in which it operates
- Maintains the retirement benefits earned to date for current and former DCHS employees
- Injects substantial new capital into the system to facilitate a much needed operational revitalization

## System Objectives

- Transform system to deliver high quality and efficient healthcare with outstanding service
- Create and maintain an “employer of choice” environment
- Financial stability required to achieve these objectives

**MISSION: TO IMPROVE THE HEALTH OF OUR COMMUNITIES**

## Strategic Overview

### ■ Growth strategies

- Build reputation: Must become “destination” facilities with top-tier performance metrics
- Ensure growth: Expansion of primary care network; rebuild medical staff
- External alignment strategy:
  - Physicians: Incentivize quality and performance; develop partnerships for risk model
  - Payers: High quality, high satisfaction services will improve reimbursement and allow expansion of risk model
  - Organizational alignment: Develop strong relationships with CBO’s and AMC’s

### ■ Operational Strategy

- Clear objectives for units and individuals
- Environment of mutual trust and respect
- A culture of high engagement and involvement of all employees in operations
- Reward hard work; reward smart work; reward high performance; reward commitment
- Everyone shares in success of the organization



## Strategic Overview – Local Market Strategy

### ■ San Mateo (Seton and Seton Coastal)

- Construct new acute care tower utilizing Measure A and other funding
- Diversify medical campus at Seton with expansion of outpatient care as well as post acute care services
- Expand capacity for high-acuity programs in cardiovascular, orthopaedic and spine, neurology, etc.
- Improve payer mix / develop strategic alignment with Health Plan of San Mateo / San Mateo County

### ■ Santa Clara (O' Connor and Saint Louise)

- Expand provider network through collaboration with payers and providers
- Build relationship with O' Connor Valley Medical/Health Plan to better manage MediCal patients
- Expand outpatient platform throughout service area
- Expand capacity for high-acuity profitable programs including general surgery, orthopaedics, oncology, etc.

### ■ Los Angeles (Saint Francis and Saint Vincent)

- Consolidate tertiary care services between Saint Francis and Saint Vincent
- Improve payer mix through contracting
- Develop outpatient network including primary and urgent care
- Develop payer relationships as low cost provider and shift to a capitated model for increasingly larger number of lives

## Summary of Key Stakeholder Issues

Accomplishing this plan will require the following initiatives:

- Merge the DCHS Retirement Plan (the Church Plan) into the Retirement Plan for Hospital Employees (RPHE), a multiemployer defined benefit pension plan
- Increase revenue through initiatives to improve federal and state reimbursement rates
- Reduce SG&A and other costs
- Negotiate new collective bargaining agreements that permit total labor costs to be reduced by 15%

Current Net Cash Flow (\$170 million)
Comments
■ De-risks system balance sheet and results in similar pension contribution profile
■ ~\$55 million
■ ~\$50 million
■ ~\$100 million
Net Cash Flow For Debt Repayment \$35 million

A critical part of the operational turn-around includes reducing the current \$700 million cost of labor and benefits by 15%. Blue Wolf has identified possible ways to achieve these savings without reducing hourly pay rates